To enrich lives through effective and caring service

Los Angeles County
Caring for Your Coast
Department of Beaches & Harbors

Santos H. Kreimann
Director

Kerry Silverstrom
Chief Deputy

August 14, 2009

TO: Each Supervisor

FROM: Santos H. Kreimann, Director

SUBJECT: AGENDA ITEM #54 – PUBLIC HEARING ON PROPOSED FEE INCREASES AND NEW FEES

Item #54 on Tuesday's Board agenda is my Department's proposed new and increased fees, anticipated to generate an additional $1,348,000 this Fiscal Year (FY) 2009-10 ($1,023,000 in Beach and $325,000 in Marina revenue). We have been asked by a number of Board offices whether these fees could be used to offset a $450,000 budget gap that will result if we are unable to secure Board approval of a beverage sponsorship agreement we are presently completing due to a Board-introduced "Healthy Food and Beverage Options at County Facilities" motion, which is also being considered on Tuesday as item #2. While these fees can be used to backfill this potential budget shortfall, we urge your Board's careful consideration of our continuing funding and operational challenges as you deliberate on both our proposed fee increases and the "healthy options" motion, given the clean and safe facilities we aim to provide to our burgeoning beach going and Marina crowds. As with other departments that have secured Board approval for their fee increases, we, instead, hope to be able to use this additional revenue to restore some of the $2.1 million in curtailments our Department took to eliminate a structural deficit in our FY08-09 budget and to assist in meeting the County's overall structural deficit.

<u>Background</u>

Since September of last year, we have worked to secure a beverage sponsor to replace Arrowhead, which provided our Department with $940,000 annually in its last sponsorship year. The sponsorship came to an end in April 2009, when Arrowhead elected not to exercise its option to extend the agreement. Given the tough economic times, it is nothing short of miraculous that my marketing staff was able to secure a proposed sponsor, Dr. Pepper/Snapple Group, which has proposed $500,000 for each of the next three years.[1] We were crafting the written agreement when the Board introduced a motion that would limit what beverage options are allowed in County vending machines. Accordingly, we contacted our proposed sponsor to determine if we could achieve the same revenue ($500,000) with an agreement that eliminated carbonated beverages and allowed vending of only its "healthy" beverages" (e.g., water, juices, teas, etc.). Unfortunately, we were told that

[1] I note in this regard that the City of Huntington Beach recently withdrew its beverage sponsorship solicitation package to secure a new sponsor to replace its expiring ten-year agreement with Coke, as it did not receive a proposal after ten months of effort. That Huntington Beach couldn't secure a new beverage sponsor speaks to how tough this current market is. Also, as an aside, the city's expiring agreement paid an annual $300,000, whereas the one we have negotiated is $500,000 for each of the next three years, even during this difficult time.

the elimination of the carbonated beverage component would not generate the full fee amount and would put at risk the sponsorship agreement altogether. Therefore, we have been discussing with various Board Deputies the idea of exempting marketing sponsorships from the "healthy options" motion or other alternatives that would preserve this funding source for us.

Simultaneously, we had been working on a Board letter for fee increases and new fees, which is scheduled as item #54 on Tuesday's Board agenda. Based upon an assortment of identified fees, we estimate we can secure an additional $1.348 million in FY 2009-10. As this revenue was not previously budgeted, it has been proposed to us that this revenue be used to offset the gap in our budget that would result if the "healthy options" motion is approved in its current form. Due to the increase in visitors to our beaches and Marina, we are recommending that these fees be used to offset curtailments, as well as to cover additional operating costs we are incurring due to families foregoing vacations and participating in more affordable recreational opportunities closer to home.

For perspective, we have attached pictures of the crowds we contended with at the Surf Festival held in the South Bay two weekends ago. Albeit this is a special event, we are experiencing an increased number of patrons frequenting our beaches on any given day, as well as increased Marina visitors taking advantage of our Marina offerings, including our low-cost summer WaterBus service and our free classical concerts and movies. These increases are due, we believe, not only to the current economic downturn, but also to our burgeoning County population. The Fire Department's Lifeguard Division has estimated crowds of over 23 million at the beaches in just June and July alone.

Concurrent with these increased crowds, the Department also took a curtailment of 16.3% in its FY 2009-10 Adopted Operating Budget, in response to:

- A $867,000 structural curtailment, as a result of not achieving projected revenue included in our FY 2008-09 budget;
- A $1.3 million curtailment, cumulative of both Proposed Budget and Final Budget changes, as the Department's contribution to help eliminate the Countywide budget gap as expected of all departments.

Rather, therefore, than having the necessary funds to cover increased service levels, we are doing our very best just to survive with the limited labor and supplies our budget affords us. More and more, we feel as if we are merely reacting to the latest complaint or facility failure as opposed to proactively maintaining our venues in a safe and clean fashion for the patrons we serve.

It should be noted that the revenue we can achieve on the Beach side of our budget is limited.[2] We consider our parking, RV Park, concession, permit, WATER Program, citation, and service reimbursement revenues as essentially our "user" fees, utilized to offset costs otherwise borne by the general taxpayer. Our marketing revenue is the only revenue without offsetting expense and is our third largest revenue source for County beaches. There are only very few other available revenue sources (e.g., grants) to meet our operating needs.

<u>Our Vending Agreement in Our Larger Marketing Sponsorship Campaign</u>

Based upon our unique 25-year history of public sector marketing, our Department has built a fully integrated and unusually successful marketing campaign, with each sponsorship agreement essentially serving to create a "buzz", or synergy, with respect to other marketing opportunities. From this perspective, our vending component is a linchpin for other programs, given the "exclusivity" we offer to our sponsor in two beverage categories (carbonated beverages and teas), such that only our sponsor's products in those two categories can be marketed on the beach and any of and only our sponsor's beverages can be sold in the vending machines and our concession stands. Additionally, the amenities connected to this program (i.e., volleyball nets, tideboards, benches, and freestanding safety signs, as well as the vending machines, themselves) provide the sponsor with name identification opportunities to an audience exceeding 60 million visitors annually caught up in the Southern California recreational lifestyle, a desirable population with respect to purchasing power. With other potential private sector sponsors realizing the value of spending their marketing dollars along the beach, each of our agreements "feed" off each other and serve to attract new potential sponsors, thereby increasing the value of our overall marketing program.

In this regard, we do note that sponsorship agreements are as sensitive to economic conditions as any other business deal, as the funding comes from the businesses' advertising budgets and is not a charitable giveaway. Accordingly, these dollars are currently much scarcer (as evidenced by Huntington Beach's inability to attract a sponsor) and less money is available. Therefore, we have only negotiated a three-year deal with our proposed sponsor, as well as peeled off some of the usually-available amenities (e.g., time and temperature boards, concert sponsorship, name identification on various brochures and guides), given the lesser number of dollars being offered at this time. This is why, also, we do not include within our sponsorship agreements termination for convenience clauses, but rather only termination for cause clauses. Not only are these sponsors different than ordinary contractors, providing the County with money instead of providing services in

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[2] There is a "firewall" between our Marina and Beach budgets, whereby Marina revenue can not be used to meet our Beach obligations. Additionally, our budget does not include all Marina revenue earned; rather, our FY 09-10 Adopted Budget gives back close to $15.7 million to the General Fund, with a Beach net County cost (NCC) of close to $11.8 million and a Marina NCC of a surplus of close to $27.5 million.

exchange for County compensation, but we also don't want to provide our marketing sponsors with the ability to opt out when times are tough. In this regard, a few of our current sponsors have approached us for revised terms. Also, our marketing sponsors typically want a guaranteed term of years in order to have time to build a sustainable campaign that grows throughout time, and, thus, justifies the amount of advertising money being spent.

Please feel free to contact me with questions or for additional information.

SHK:ks
Attachments

c: William T Fujioka, Chief Executive Office
Sachi A. Hamai, Executive Officer
Robert Kalunian, County Counsel


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